MORTGAGE BANKERS ASSOCIATION®
Investing in communities

August 31, 2012

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Email submission: regs.comments@federalreserve.gov, FR Y-14/Q/M

Project: Proposed Revisions to FR Y-14Q, (Quarterly Collection) MSR Valuation Schedule

Dear Ms. Johnson:

On July 6, 2012, the Federal Reserve (Fed) issued for comment several proposed information activities, including Proposed Revisions to FR Y-14Q, (Quarterly Collection) MSR Valuation Schedule (Proposed Schedule) for a 60 day comment period. The Proposed Schedule would collect information on the data that bank holding companies (BHCs) use to value their mortgage servicing rights (MSRs) and the sensitivities of those valuations to changes in economic factors. A list of the proposed disclosure items is attached for reference in Appendix A.

The Mortgage Bankers Association[1] (MBA) thanks the Fed for the opportunity to comment on the Proposed Schedule. Below, please find MBA's general comments and recommendations.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

Potential Cost Burden for Small Servicers and Need for Cost/Benefit Analysis

A BHC would be required to complete the Proposed Schedule each quarter if either the average fair market value of MSRs exceeds five percent of the BHC's average Tier I capital during the last four quarters, or the unpaid principal balance of loans under contract for servicing, for which an MSR is calculated, is greater than $100 billion. This would require many servicers both large and small to report. The MSR characteristics of the large and small servicers are likely to be different, making industry-wide comparisons irrelevant. Some members noted that as servicers enter or exit the survey, the overall results from quarter to quarter can become less meaningful.

MBA believes that this new reporting requirement will be unduly burdensome for small, community banks. Although some small servicers utilize an outside firm to value servicing, others perform servicing valuations in-house. MBA believes that the incremental time and cost required to prepare the Proposed Schedule will be unduly burdensome, especially for small servicers or those entering the servicing business.

MBA recommends that the Fed conduct a cost/benefit analysis on the proposal and share those results with the public. The cost/benefit analysis should be specific as to the benefits to the Fed and to the reporting entity, and the Fed should report the cost/benefit by servicing portfolio size.

Purpose of the Survey

MBA notes that the Federal Register mentions that the proposed schedule would enhance the ability to monitor and stress-test MSR valuations that tend to be volatile and sensitive to macroeconomic shocks. While appreciating the objective, many of our members see the Proposed Schedules as repetitive of information already provided through existing reporting mechanisms.

MBA notes that many banks already participate in the OCC's voluntary survey of MSR valuation information. Others participate in PricewaterhouseCoopers surveys and receive usable feedback information for their efforts. Many BHCs are publicly held, and SEC registrants already must report a great deal of information in their quarterly SEC filings, including shocks of their MSR asset and key assumptions used to determine the fair value of MSRs. Finally, large banks are already required to periodically perform shock analysis for the regulators as part of the Comprehensive Capital Analysis and Review (CCAR) stress testing.

Adding an additional requirement like the Proposed Schedule in the absence of any significant information coming back to participants in the survey makes no sense to our members. MBA recommends that the Fed leverage the OCC survey and 10Q information rather than create a new survey. If the purpose of the survey is to gather information in anticipation of a safety and soundness examination, MBA recommends that the Fed include the survey questions in its pre-examination request for information instead of making servicers incur the costs to report the information each quarter.

Market Is Driven Not Just By BHCs

MBA notes that many servicers are not part of a BHC, so the survey results would not necessarily include all major market makers that impact fair value. Further, the proposed restrictions on MSR assets contained in the Basel III proposal may dramatically change the servicing competitive landscape, with more and more servicing being performed by non-depository institutions. MBA also notes that as servicers enter or exit the survey, the overall results from quarter to quarter can become less meaningful.

Assumption Consistency Across Different Servicers

If a goal of the Proposed Schedule is to promote comparability of MSR valuations across all BHCs, MBA does not believe that the Fed will accomplish this. Each BHC has unique servicing portfolios and valuation techniques. Banks use a mix of vendor based and/or proprietary models to value MSRs and imbed a variety of sub models for prepayments, defaults, and interest rates. Banks already have a process to benchmark internally generated MSR values to available market indicators, with each bank having a different set of assumptions thereby rendering them difficult to compare and evaluate without further discussion and analysis across companies.

Capitalization Rate on Generic Product

MBA notes that the Proposed Schedule will include the capitalization rates on generic products based upon a base mortgage rate. MBA believes that it will be difficult to define a base mortgage rate due to 1) individual firms' definition of par mortgage rates and 2) future mortgage rates used in the valuation. Each large institution will have a unique formula to determine future mortgage rates and unique prepayment and default models. Companies that use the same prepayment model, likely tune their models to match their portfolio characteristics. Likewise, MBA expects the results for this item in the survey will be quite varied because the proposal is missing many of the nuances that flavor MSR valuations.

For example, a community bank that services loans from their own geographic area may value their servicing more or less aggressively because of higher or lower assumed prepayment rates, incidences of default, real estate taxes (impacting assumed escrow balances), and other nuances unique to their community. MBA also notes that small banks often have lower prepayment speeds and default rates.

In addition, geographic location can significantly impact assumed escrow balances, interest paid on escrows, assumed default rates, and assumed prepayment speeds.

MBA concludes that the only consistency that the Proposed Schedule will produce with respect to capitalization rate on generic products is consistency in formatting information. It will not result in consistency in models, assumptions and methodologies.

Stress Tests

Our members believe that the proposed stress test scenarios of plus 10 percent and minus 10 percent change in 3 X10 implied swaption volatility should be more broadly defined so that they may include more than a single swaption volatility. Other members note that not all valuation techniques incorporate swaption volatility directly into their MSR valuations. Most term structure models of today allow their users to shock all volatilities up 1 percent and down 1 percent. This would be more consistent and useful to industry participants than the proposed stress test scenarios.

MBA notes that the shocks required for changes in economic conditions include changes in the national unemployment rate and changes in home price index (HPI). In addition to focusing strictly on HPI and unemployment data, some servicers now look at more enriched data including mark-to-market LTV and current FICO while other servicers have broken out product definitions by vintage or LTV and have assigned assumptions at the product level. Further, valuation approaches and product definitions are not consistent across servicers MSR valuation models for voluntary and involuntary speeds and other key assumptions.

Notably, several of the sensitivity analyses relate to specific indexes that may be dependent or independent variables within the MSR valuations. For example, most prepayment models have an HPI factor, as lowering the HPI will reduce voluntary prepayments; however prepayment models don't automatically increase the CDR in such shock environments. Some members model the voluntary and involuntary speeds separately, and a linkage must be created by all surveyed participates in order to produce relevant shocks.

Some MBA members noted that a good portion of the sensitivity measures are not part of the normal risk reporting, as companies focus on value changes as a result of changes in interest rates (risks subject to hedging) rather than on shocks not subject to hedging. Time and effort would be required to set up and test these shocks that are outside of the management risk of the MSR.

Other MBA members noted that stressing an individual input assumption can lead to a misleading conclusion when compared to other firms. MSR assumptions must be viewed holistically because while each firm's interaction of the entire set of MSR assumptions has different sensitivity and impacts, each are designed to obtain a fair market value.

MBA also notes that the proposed shock of $1 increase in servicing cost and $1 decrease in ancillary income are the same shock. Our members suggest that the sensitivity measures be reviewed for materiality, and shocks immaterial to the overall valuation or that are not subject to hedging be removed.

Detailed Valuation Information

Our members noted that the detailed valuation information request will, at a minimum create comparison difficulties as loan type definitions are not consistent across all servicers. For example would FNMA Expanded Approval product be defined as Alt A or Agency?

Finally, each company has a unique stratification methodology that may or may not line up with the individual lines for the Proposed Schedule. Firms will likely be unable to change these internal methodologies to match the request, further adding to the burden of completing this request.

MBA appreciates the opportunity to share its comments with you. Any questions about the information provided herein should be directed to Jim Gross, Vice President Financial Accounting and Public Policy and Staff Representative to MBA's Financial Management Committee, at (202) 557-2860 or jgross@mortgagebankers.org.

Sincerely,

David H. Stevens
President and Chief Executive Officer

Appendix A

MSR Data Collection Worksheet
Instructions

Note: Report all dollar items in thousands ($'000s)
Report all information for 1st Lien Residential MSRs Only

1. General Instructions:
   - On the line indicated, report the book value and market value of the MSR asset as of the most recent quarter end. Do not report MSR asset net of hedges.
   - On the line indicated, report the aggregate dollar volume of mortgage loans serviced and the total number of mortgage loans serviced.

2. Please provide the capitalization rate (multiple) and base mortgage rate on FNMA/FHLMC, Jumbo and GNMA 30 year products sold during the quarter into a current coupon MBS. Assume that the remittance cycle is Scheduled/Scheduled, taxes and insurance are escrowed, with FICO scores of 700, and LTV of 80%.

3. Valuation Information

On the line indicated please report the following:

- Valuation Methodology: Static or OAS
  - For static reporters, the yield curve prepayments based upon: Current, Forward, Other

- Prepayment Model Used: Proprietary or Vendor
  - If Vendor Model Used, Note Vendor Name

- Default Model Used: Proprietary or Vendor
  - If Vendor Model Used, Note Vendor Name

- FHLMC/FNMA normal, delinquency, and default/foreclosure servicing cost per loan ($)
- FHA normal, delinquency, and default/foreclosure servicing cost per loan ($)
- VA normal, delinquency, and default/foreclosure servicing cost per loan ($)
- Non-agency normal, delinquency, and default/foreclosure servicing cost per loan ($)
- Judicial jurisdiction foreclosure time frame (mos)
- Non-judicial jurisdiction foreclosure time frame (mos)

4. MSR Valuation Sensitivity Metrics

Please report the following sensitivity metrics for 1) the total MSR portfolio; 2) fixed rate products including 30 year FHLMC/FNMA, 15 year FHLMC/FNMA, FHA, and

VA; 3) ARMs including FHLMC/FNMA, FHA,VA, and Non-Agency; and 4) ALT-A/Option ARM, and Subprime loans under Memo.

- +100 basis point parallel move in yield curve
- +50 basis point parallel move in yield curve
- +25 basis point parallel move in yield curve
- -25 basis point parallel move in yield curve
- -50 basis point parallel move in yield curve
- -100 basis point parallel move in yield curve
- +10% change in 3X10 Implied Swaption Volatility
- -10% charge in 3X10 Implied Swaption Volatility
- +100 basis point move in OAS/discount rate (option adjusted spread)
- -100 basis point move in OAS/discount rate
- +100 basis point change in CDR (conditional default rate)
- +500 basis point change in CDR
- +1000 basis point change in CDR
- +100 basis point change in CPR
- +500 basis point change in CPR
- +1000 basis point change in CPR
- 3 month increase in foreclosure time frame
- $1 per loan increase in normal servicing cost
- $1 per loan increase in delinquency servicing cost
- $1 per loan increase in default/foreclosure servicing cost
- $1 per loan decline in ancillary income
- +100 basis point change in national unemployment rate
- +500 basis point change in national unemployment rate
- -500 basis point change in HPI (National Core Logic Index)
- -1000 basis point change in HPI (National Core Logic Index)
- -2000 basis point change in HPI (National Core Logic Index)

5. Detailed Valuation Information

On line indicated, please report the following data for each indicated loan type by coupon strata:

- Fair Value (FV) Multiple
- Voluntary Prepayment Speed (CPR)
- Involuntary Prepay Speed (Default Rate) (CDR)
- Discount Rate (in %)
- Option Adjusted Spread (OAS) (in basis points)
- Weighted Average Coupon (WAC) (in %)
- Weighted Average Maturity (WAM) (in months)
- Weighted Average Servicing Fee (WASF) (in %)
- Weighted Average Remaining Term (WART) (in months)
- Weighted Average Life (WAL) (in months)
- Average. Loan Size ($)

- Cost to Service per Loan ($)
- Ancillary Income per Loan ($)
- Unpaid Principal Balance ($)